

**USAID/LAC Rural Prosperity Workshop  
Hilton Washington Embassy Row Hotel  
February 4 – 6, 2002**

**February 4, 2002**

**Opening Remarks: The USAID Renewed Emphasis on Rural Economy, Review of Rationale,  
Purpose & Objectives of the Workshop**

Moderator: John Beed (USAID)

Speakers: Michael Deal, Emmy Simmons, George Carner (USAID)

**A. Themes and Objectives**

The themes of the presentations covered a brief history of USAID involvement in agriculture, its current status within the Agency, its future under the current administration, and the importance it plays in Latin America. The objectives of the presentations were to increase awareness among the audience of the importance of agriculture in its ability to reduce rural poverty, and to lay out the purpose of the policy white paper, which will provide a framework for rethinking the USAID approach to rural poverty reduction.

**B. Summary of Key Presentations**

The presenters were all senior-level USAID staff. Michael Deal opened the panel by drawing attention to the relatively low priority status of agriculture as reflected in USAID's agenda during recent years and indicated that the current administration is committed to increasing the role of USAID in agriculture world wide. Mr. Deal emphasized that now is a good time to refocus on rural development as a number of key concepts have matured and offer project officers many tools for positively impacting the rural sector. These include a firm commitment to market-led development, the availability of new technologies for agriculture, and the focus of national governments on supporting activities in which a country has a comparative and competitive advantage. He remarked that "Investing in the rural sector is good business" for both LAC countries and USAID. He finished with a comment thanking the IDB and the World Bank for spearheading programs in the region designed to increase trade capacity, a key to agricultural development.

Emmy Simmons directed her comments specifically to several sectors of agriculture. She remarked that on the one hand, science and technology offer many opportunities to increase production of many different crops, while on the other, trade restrictions for imports into the U.S. market and the extensive subsidies present in the US farm bill mean that penetrating this market is more difficult. Ms. Simmons reiterated Mr. Deal's comment on the importance of agriculture in this administration, and noted that agriculture would be a key component of USAID's new three-pillar strategy. She indicated that the pillar bureaus will support the regional bureaus to develop an integrated, agency-wide program, with the intent on creating a seamless and agency-wide process.

George Carner opened his remarks by emphasizing that the Agency should focus on rural production, including off-farm activities to generate income and reduce rural poverty. He noted the need to work through all levels of the value chain for agricultural production, from farm to processing to marketing, enhancing the multiplier effect of changes in one part of the chain. Mr. Carner elaborated on several key concepts for rural prosperity including: the need to be responsive to market forces and market demand; utilization of improved IT and other technologies relevant to agriculture; support for business

relationships such as contract farming, alliances between producers and buyers (specifically mentioning coffee exports) and alliances between donors to better coordinate support to the sector. Mr. Carner also made two very relevant points: 1) land tenure issues need to be resolved for long-term impact in sector (USAID programs estimate that for an average \$100 per farm titles can be formalized), and 2) the challenge of channeling remittances into productive activities in the rural sector (in some cases, such as Guatemala, the flows are greater than official development assistance). In concluding, Mr. Carner expressed hope that the conference would lead to a unified response to the current coffee crisis impacting Central America, and a renewed long-term commitment by USAID to work towards the reduction of rural poverty in Latin America.

### C. Characteristics and Conclusions of Session

The presenters focused on the strategic objectives of USAID's rural poverty reduction strategy and their views on what they hoped the conference would achieve to further refine and define actions to be taken in the field in support of this goal (including alliances with multi-lateral development banks).

### **Session I: Setting the Stage for Effective Rural Development in LAC**

Moderator: Dr. Jolyne Sanjak (USAID)

Speakers: Dr. Alain de Janvry (U. Cal. Berkeley), Dr. John Mellor (Abt Assoc.) and Dr. Thomas Reardon (Michigan State U.)

#### A. Themes and Objectives

This session focused initially on the theoretical underpinnings of the conference, 1) why we must act (scope and magnitude of problem of rural poverty) and 2) how we must act (the five exit paths from poverty). It was supported by data showing that agriculture is an efficient engine for poverty reduction (given certain assumptions regarding income distribution and the effective intervention of the public sector), and ended with real-world examples of how market forces offer both opportunities and challenges for incorporating the poor, using in this case poor farmers and their relationship to supermarkets, into competitive marketplaces.

#### B. Summary of Key Presentations

The presenters were all respected development practitioners and academic experts with prominent reputations in the development field. The first speaker, Dr. de Janvry, is a noted expert on the causes of poverty and approaches to poverty reduction. He noted that poverty is significant (67% of the world's population lives in poverty); that rural poverty is predominant (65% of total poverty) and that recent reductions in poverty are not due to improved programming or economic development but can be explained to a great degree by migration from rural to urban areas. Economic growth, in particular via regional growth engines (agro-industry, tourism, duty-free zones, etc.) are the most efficient way to provide economic growth. Local growth is dependent on the proximity to regional growth engine (the corridor approach) and the ability of local communities to respond to these opportunities. Central governments must work to support education, skills, infrastructure and the investment climate necessary for these local communities to respond to these opportunities.

Dr. John Mellor began his discussion by noting that it required at minimum a 6% - 7% p.a. growth rate to begin to impact on poverty levels. He then noted however that economic growth *per se* only accounted for about 1/3 of the reduction in rural poverty levels, with most of the remainder being explained specifically by *growth in agriculture*. He noted that this is not an immediately noticeable phenomenon, with the

observable impact generally being observed between 3-4 years later. He also noted that in cases where income distribution is highly skewed (as in many places in Latin America) the impact on poverty is not as great. It is therefore incumbent that the public sector has a significant role in the process, especially as it relates to small holders. Dr. Mellor finalized his remarks by pointing out that there has been radical change in three areas of agriculture over the past 20 years, and must be taken into account in any program. These are: 1) the increased speed at which technological breakthroughs are occurring; 2) globalization is creating new opportunities for many products and commodities that are both high-value and labor intensive (absorptive); and 3) capital is now an abundant resource, and *in theory* no developing country should lack for access to capital.

Dr. Thomas Reardon focused his discussion on the recent penetration of Latin American retail food markets of large supermarket chains and fast food establishments (downstream outlets), often locally owned but increasingly foreign dominated. This is leading to concentration within several segments of the industry. Large stores such as Wal Mart and Carrefour and beginning to dominate Latin American grocery businesses and even in sector such as dairy international companies such as Nestle and Parmalat are moving rapidly to consolidate market share in several countries. This concentration is leading to a push for improved quality standards, more consistent supply standards (resulting in more contract farming) and improved food safety. While this provides more opportunities for large and medium operators it will adversely impact on small producers with insufficient capital or capacity to meet these requirements. A key aspect to promoting rural prosperity will be helping small farms and firms deal with these challenges.

### C. Characteristics and Conclusions of Session

The session did not have a question and answer session. The conclusions derived from the presentations are that 1) poverty is a persistent, significant problem in Latin America; 2) certain actions and interventions will have a far more significant impact on reducing poverty than others, and donors and governments must be aware of which options are the most efficient and effective; 3) agriculture is, given certain pre-existing conditions, a highly efficient mechanism for increasing rural prosperity; and 4) market forces move more rapidly than development programs, and those agricultural programs that do not take into account new economic forces such as supermarkets will fail in their goals of raising rural incomes, particularly on the small farmer/firm level.

## **Session II: A Framework for USAID/LAC Strategic Thinking on Agriculture & the Rural Economy**

Moderator: Susanna Mudge (Chemonics International)

Speakers: Dr. Jolyne Sanjak (USAID), Clem Weber (Chemonics International)

### A. Themes and Objectives

The themes of the session focused on the draft white paper on rural prosperity for the LAC Region, its origins, evolution and purpose. In addition the lead author of the white paper, Clem Weber, provided an overview and synopsis of the major themes of the white paper, and urged participants to view it as a framework for good decisions and not as a strategy document.

### B. Summary of Key Presentations

Dr. Jolyne Sanjak of USAID has been the main force behind the development of the white paper and the renewed emphasis on rural development within USAID. Dr. Sanjak reviewed the evolution of the white

paper from brainstorming sessions to one-page concept paper to a process of deepening the knowledge base by commissioning the white paper and completing the LAC Trends Analysis document. This was followed up by the current workshop, which will provide the means for discussion and dissemination of the information compiled so far. Next steps will include the finalization of the framework, its presentation to senior management, and moving forward on new and renewed program initiatives. It was emphasized that the desired outcome of the workshop is not a final strategy, instead it is a “framework for a process of getting priorities right.”

Mr. Clem Weber provided the participants with a summary of the major sections and points of the white paper. He also noted that in addition to providing a framework for analysis it was designed to address the issue that agriculture is not being given the importance it merits to foster economic growth. Mr. Weber echoed Dr. Sanjak’s comment that the white paper is not a strategy but a framework or process to help get priorities right. It identifies questions that should be asked, and also reviews lessons learned to help identify best development practices. Mr. Weber concluded that there were several reasons to focus now on a new strategy to promote rural prosperity: 1) the timing is appropriate; 2) it will respond to the opportunities provided by globalization and free trade; 3) rural poverty is a deeply-rooted, complex issue that will not be resolved without targeted attention; 4) there is a tremendous cost associated with not changing the status quo; and finally 5) the social need to address extreme income, ethnic and gender inequalities in the LAC region.

#### C. Characteristics and Conclusions of Session

The presenters discussed both the process of the development of the white paper and the uses to which they hoped it would be put by the participants.

#### **Lunch Presentation: Featured Address on USAID Directions**

Speakers: Dr. Janet Ballantyne, Counselor, USAID

##### A. Themes and Objectives

The lunchtime session provided conference participants the opportunity to hear senior agency management discuss the challenges and opportunities facing USAID as it responds to world events and works to maintain and increase its relevance in a changing world.

##### B. Summary of Key Presentation

Dr. Ballantyne began the discussion by relating comments made by USAID Administrator Andrew Natsios to Congress during which he placed USAID squarely under the guidance and leadership of the Secretary of State and in the forefront of the administration’s national security strategy. She indicated that this was a role which USAID must work to fulfill. She made several comments on the strategic vision Mr. Natsios has for the agency:

- USAID must respond to US foreign policy goals and national interests. USAID is not independent of the greater national interest.
- USAID will be judged by what it can get done. The agency must meet new challenges, take what it does best and apply it to the larger arena.
- USAID must be able to respond to demands.
- USAID must maximize its technical expertise to stay relevant. Mr. Natsios has emphasized agriculture and disaster response as two areas where USAID is still a leader.

- USAID is a field based agency, and must act as one. Pillar bureaus will be judged on the support they provide field missions, not Washington.
- USAID “needs action plans” for short term implementation to follow on to the white paper; and finally
- Must show relevance of USAID to a new generation of Latin American leaders. Latin America is too important to US interests to ignore and USAID must represent these interests to the best of its ability.

#### C. Summary of Post-Presentation Discussion

Post-presentation there were questions to Dr. Ballantyne. One question asked about the relative role of environment in the future. Dr. Ballantyne replied that environment would continue to occupy an important place. Another question on whether after the current reorganization would lead to more DC-based staff. The reply was that there would be no increase in DC-based staff, and that their goal was an additional 100 people in the field during 2002.

#### D. Characteristics and Conclusions of Session

Dr. Ballantyne laid out a very straightforward vision of how USAID must adapt itself to changing environments in order to remain relevant. She emphasized that USAID must play a supportive role in the greater national security efforts of the USA and that it must be in the forefront of support for US foreign policy.

### **Session III: White Paper Panel, Topic 1: Rules of Trade & Market Access**

Moderator: Susanna Mudge (Chemonics International)

Speakers: David Franklin (Sigma One), Eugenio Díaz Bonilla (IFPRI); Ricardo Frohmader (Chemonics International), Phil Church (DevTech); Michael Kaiser (USAID/Peru)

#### A. Themes and Objectives

The theme of the Rules of Trade and Market Access session was the interplay between the markets for goods, labor and financial services and the impact this has on poverty reduction. Subject exams trade regimes and their impact on national economies, industries and employment, particularly as they relate to agriculture. This is one of the principal themes included in the White Paper on Rural Prosperity.

#### B. Summary of Key Presentations

David Franklin led the discussion by pointing out that factor markets in Latin America are still in many cases hindered by an overbearing public sector. Rules of trade that negatively affect rural workers and entrepreneurs such as domestic import tariffs and non-tariff barriers must be dealt with. USAID has a strategic opportunity to support participation in FTAA and regional pacts as platforms for global competitiveness; assist public private partnerships to achieve WTO compliance; promote business to business linkages through cluster competitiveness; support science-based harmonization of SPS; and establish GDA partnerships with large firms.

Eugenio Díaz Bonilla presented an analysis of trends in agricultural production and trade in Latin America, pointing out that Latin America is still a net exporter of agriculture products. He then discussed public sector and private sector trends in the broader rules of trade context. For the public sector WTO, FRAA and other regional agreements are impacting on export subsidy policies, SPS precautionary

principals, and intellectual property rights. Agreements such as the Cartagena protocol have implications for biotechnology in Latin America. On the private sector side industrial nations are emphasizing quality and safety issues and also attributes not directly linked to the industry (environment, worker rights). Opportunities exist for assisting developing countries to deal with both the public sector and private sector challenges. Proposed actions could include: supporting the legal infrastructure to allow/promote institutions that ensure and provide food quality and safety; provide technical assistance during treaty negotiations (trade and tariffs, biotechnology, etc.) and emphasize policies that support small and medium farmers to become more competitive in the face of increased competition.

Phil Church noted that despite difficulties of accessing North American market, it is the biggest and most affluent, and should be a goal of market development programs. Also, developing countries have many opportunities for reducing internal barriers to trade by promoting *no less favorable treatment* regimes to attract foreign investment and converting non-tariff barriers to direct tariffs to increase efficiency, a process described as *tariffication*.

Ricardo Frohmader pointed out that rapid onset of open trade regimes in Guatemala led to vertical integration and economies of scale but also increased unemployment. Possible measures to mitigate these impacts include producing higher-value, labor intensive crops. These can be for export (though often phytosanitary regulations in USA present barriers) or for domestic markets. In the case of the latter it is important for small farmers to work with brokers to access supermarkets and the opportunities they provide. Finally, there is a real need for adaptive research to be carried out by non-political institutions such as FHIA and CATIE. This can also be done under the guise of Public Private Partnerships to leverage scarce resources.

The capstone presentation was given by Michael Kaiser, who presented USAID/Peru's Poverty Reduction and Alleviation Activity as an example of a project working to increase trade, generate income and reduce poverty in rural Peru. Key aspects of his presentation included the concepts of: 1) Produce what you know you can sell rather than sell what you produce (market is the driver); 2) utilization of secondary cities/economic corridor approach to create income, investment and employment outside of Lima (with the secondary impact of reducing rural to urban migration); 3) Promotion of businesses, not sectors. There are no preconceived notions of winners, only businesses that wish to succeed; and 4) Acting in conjunction with public sector initiatives on improving the economic infrastructure, human capital and social programs all essential to alleviation poverty.

#### C. Summary of Post-Presentation Discussion

There were several questions directed to Mr. Kaiser on the PRA activity. Much discussion centered on the use of Economic Service Centers (ESCs) to facilitate business linkages and the sustainability of the activity once these end. In response it was noted that ESCs are designed to give economic corridors a one-time shot in the arm, PRA is playing the role of a broker and it is expected that this service will not need to continue in this form after the life of the project.

#### D. Characteristics and Conclusions of Session

There was significant interest in the design and impact of PRA as it combines a market-led approach to business development with a corridor/secondary cities implementation and is achieving significant results in terms of sales and employment opportunities.

### **Session IV: White Paper Panel, Topic 2: Science & Technology**

Moderator: Noreene Janus (USAID)

Speakers: David Bathrick (Chemonics International), Reed Hertford (EAM Co.); Bhavani Pathak (USAID), Sergio Navajas and Jorge Calvo (USAID Bolivia)

#### A. Themes and Objectives

The theme of the Science and Technology session was the Essential Knowledge Systems to Enhance Competitiveness and Sustainability and its relationship to agriculture and rural prosperity in Latin America. This is one of the principal themes in the White Paper on Rural Prosperity.

#### B. Summary of Key Presentations

David Bathrick emphasized two fundamental points on Science and Technology (S&T) as brought out in the White Paper. In today's trade-driven era country-level economic growth is inextricably linked to 1) improving factor productivity from market-driven knowledge-systems; and 2) implementing science-based regulatory and food safety requirements such that external market access is regularly gained. He pointed out that current S&T response capacities, as exemplified by NGOs, foundations and research groups, have fallen short of expectations. Donor interest and funding is at its lowest level since 1960, and today USAID contributes only \$1.2 million for agriculture research. This is insufficient. In order to have lasting impact we must extrapolate from experiences to develop low cost entrants, focusing on post-harvest handling, food science, quality standards and business training.

Reed Hertford noted that focus was necessary to produce results given limited resources, which would necessitate a trimming of the number of objectives. He suggested concentrating S&T research on the tropics, and targeting research through occupational competitiveness analysis. To take full advantage there should be developed a multi-sector, multi-institution research agenda. Also using institutions such as FONTAGRO (endowed by USAID in 1997) should be emphasized.

Dr. Bhavani Pathak led the discussion on biotechnology. She noted that biotechnology can be used to increase economic growth because modern transgenic plants are disease and pest resistant, herbicide tolerant, nutritionally enhanced and medically modified. As part of biotechnology work USAID cooperates with Michigan State University (MSU) on adapting applied research to developing countries through the Agricultural Biotechnology Support Project (ABSP). The emphasis is on bio-safety, IPR and technology transfer. A public-private partnership it combines research innovation, commercial sector development and public sector infrastructure. Dr. Pathak emphasized the potentially large role that China could play in biotechnology and the major potential for increase in BT cotton.

Sergio Navajas and Jorge Calvo presented the USAID/Bolivia Market Access and Poverty Alleviation project and its relationship to agricultural research and development and poverty reduction. MAPA operates on three fundamental principals: 1) Create a market place for technology through the foundations. Bring demand (farmer associations) together with supply (local and international technology) through the national foundation system being developed under MAPA; 2) create a sustainable market support mechanism through the foundation system. Include all stakeholders: government, donors and farmer associations; and 3) select specific projects based on market conditions. Farmers must contribute to cost and meet minimum conditions for access to roads and irrigation. From this project several lessons have emerged: 1) coordination with all stakeholders is required to ensure sustainability of program beyond life of USAID funding; 2) technological innovation needs to happen in connection with the product market, farmer's technology needs and the capacity of technical assistance providers; and 3) while approach may not be appropriate for large-scale research initiatives it works well when applied to smaller innovative programs.

### C. Summary of Post-Presentation Discussion

Comments were made as to why no reference was made to farming systems research? These lessons are valuable and should not be ignored. Presenters noted that it was not directly market linked to dynamic markets. In terms of biotechnology it was asked why such research was not left completely to the private sector? The response was that non-major crops were not of interest to large companies and so did not receive the necessary attention. A final point was made as to what could Washington do to support field missions in this arena? The response was that USAID/LAC could try to work with USDA to speed up process for gaining admissibility or enterability for LAC products.

### D. Characteristics and Conclusions of Session

There was significant interest in biotechnology and in gaining improved admissibility for LAC products into the US market.

**February 5, 2002**

### **Session I: Featured Discussion: Remittances**

Moderator: Jeremy Smith (USAID)

Speakers: Dr. Manuel Orozco (Inter-American Dialogue), Professor David Runsten (UCLA.) and Fernando Jimenez-Ontiveros (Inter-American Development Bank)

#### A. Themes and Objectives

This special session focused on deepening the participants' understanding of remittances to Central America, the Caribbean, Mexico, Colombia, and Ecuador — where they are the most important source of income for the poor — and the possibility of using remittances as a tool for development and as a means of stimulating the rural economy. Remittances in general are related to immigration for rural areas. In volume, remittances already exceed foreign aid to Latin America and the Caribbean. Their economic impact is especially important because the money is usually received by people in low-income communities. Given current demographic and migration trends, many experts believe that the flow of remittances will continue to grow during this decade. As a result, remittances may play an important component of economic strategies, particularly those targeted to rural areas and poverty reduction.

#### B. Summary of Key Presentations

The presenters represented development practitioners and academic experts with research and work experience in the field of remittances. The first speaker, Dr. Orozco, has written extensively on the remittances. He noted that remittances have become a significant indicator of a country's integration in the global economy, having a significant impact on national economies and households. First, households receive incomes from abroad to buy food and pay for health services and medicines. Second, remittances have supported the balance of payments and foreign currency reserves of these countries. Overall, remittances have generated a multiplying effect through an increase in the demand for goods that recipients could not afford prior to receiving remittances, thus triggering a pattern of growth. Dr. Orozco addressed the changing characteristics of remittance markets, the various dynamics in the transfer process, in transaction costs, and exchange rate speculation. He also highlighted the importance of supporting banking institutions as mechanisms of development triggered by remittance transfers.

Professor Runsten, an expert in agricultural labor, migration, and regional integration, recognized that remittances have an economic effect but clearly stated that “we do not know what it is.” He focused his discussion on the relationship between migrants, home-town associations, and rural villages in California and Mexico. The binational labor market is so well established between rural Mexico and rural California that the United States must take an interest in rural Mexico. Professor Runsten used the Jalisco hometown association network in California as a means of promoting and supporting economic development projects in their communities in Jalisco, Mexico. For migrants belonging to home-town associations have strong ties to their village of origin *and* have lived in the United States for a long time. Migrants responding to Professor Runsten’s survey said that they remit about one-third of their wages in cash or in kind. Their contributions to the local economy also tend to increase prices. Their continued distrust of government at all levels and a lack of knowledge of the local context have made it difficult to plan long-term strategies with home-town associations. The latter also need technical assistance to make local projects successful, in particular projects that can generate employment for those who cannot leave the village. Professor Runsten proposed a two-prong approach: to support home-town associations and to work with U.S. credit unions in linking with local financial institutions to make small loans in rural areas for development.

Mr. Jimenez-Ontiveros of the Multilateral Investment Fund summarized the MIF’s role, objectives, and pipeline, which includes 479 projects. The MIF, an autonomous fund managed by the IDB, advocates private sector development in Latin America and the Caribbean, supports programs to reduce the cost of remittances by stimulating competition and to enable their transmission through financial institutions that work with low-income clients, such as credit unions and microfinance institutions. Mr. Jimenez-Ontiveros estimated that remittances, which are inextricably linked to the problem of undocumented workers in host countries, have risen to US\$20 billion a year, originated mostly by Latin American and Caribbean people working in the United States, Western Europe, and Japan. He listed several constraints to working with remittances, including dealing with two communities in two countries, less developed banking culture, distrust of government institutions, and a few companies conducting the transactions. Mr. Jimenez-Ontiveros recommended developing “best practices” for regulatory institutions and remittances. He invited participants to attend two roundtable conferences on the economic impact of remittances in Latin America and the Caribbean to be held in El Salvador and the Dominican Republic. Friday, February 8 and Wednesday, February 3, respectively.

### C. Summary of Post-Presentation Discussion

A lively question and answer session followed the main presentations. Professor Douglas Southgate (Ohio State University) wondered if remittances did not create a perverse incentive for perpetuating inefficiencies in the financial sector. Michael Maxey (USAID/Peru) cited the experience of a local supermarket chain in capturing that share of remittances that go to buying food. Ronald Greenberg (USAID/El Salvador) urged that researchers and practitioners begin to standardize terminology and “segment” remittances into categories, for example, general, community, and business investment.

### D. Characteristics and Conclusions of Session

The moderator allowed Carlos Dade of the Inter-American Foundation to address the forum. His remarks served to bring together the discussions into the following conclusions. In simplifying the terminology, remittances means taking money away from poor people to even poorer people to *alleviate poverty*. They must be included in the process as donors and multilateral financial institutions *think creatively* about the process. But neither donors nor lenders should crowd out the *private sector*, even if the banking sector never considered the poor who receive remittances as creditworthy.

Presenters recommended the following links:

The North-American Integration and Development Center's Web site contains publications on research and policy and conference listings: <http://naid.spsr.ucla.edu>.

The MIF's Webpage on remittances: <http://www.iadb.org/mif/website/static/en/remit02.asp?C=6>.

## **Session II: White Paper Panel, Topic 3: Access to Assets**

Moderator: Dr. Rebecca Adams (USAID)

Speakers: Clem Weber (Chemonics), Klaus Deininger (World Bank) and John Strasma

### **A. Theme and Objective**

This session's objective was to raise the level of discussion around human, physical, and social assets and the need to provide the rural poor with increased access to these assets. *Assets* are anything that can be used to produce value and access to assets means an individual has the opportunity to use them at some point in time to produce value, to generate income, and wealth. Access also determines the physical well being of the poor and their ability to pursue a livelihood and function as part of the society. Moreover, well functioning democracy goes in tandem with having economic opportunities.

### **B. Summary of Key Presentations**

The presenters included a respected senior agricultural economist and farmer, a senior economist from the World Bank, and a leading expert on land tenure and security. The first speaker, Clem Weber, reiterated the statement that "poor people in Latin America and the Caribbean are poor because their market asset value is low." He defined human, physical, and social capital and distinguished these from natural, financial, and institutional capital. With limited access to any one asset, the poor depend on a wide range of assets which, in general, are assigned to one or more of three principal roles: production of income, level of saving, and collateral for borrowing. Mr. Weber recognized the regional dimension to poverty, which "reflects unequal opportunities across regions to use asset endowments to generate income." Land security, titling, and transferability augment the value of land because it allows access to credit. Mr. Weber noted that access to credit or additional financial assets is widely recognized as one of the most serious constraints to increased economic activity in rural areas, especially for agricultural enterprises. Only 10 to 15 percent of rural households have access to formal credit. He noted that better health, education (the one asset that once acquired cannot be stolen), and nutrition help the poor escape rural poverty by increasing resourcefulness, income, and food production of farmers and workers in low-income areas. He also added that these help reduce poverty by increasing mobility to (and earning capacity from) cash crops, rural non-farm production, and urban work, allowing for migration if required.

Mr. Deininger, a senior economist in the rural development group of the Development Economics Group at the World Bank, gave a very concise presentation with key highlights of the focus on assets and interventions needed to improve access to assets. He noted that the notion of assets has replaced the notion of income distribution so that "unequal distribution of assets leads to inequality of opportunities not just outcomes." The low effectiveness of educational efforts and continuing *latifundistas'* monopoly of access to financial assets reflect disparities in access to other assets. Mr. Deininger agreed that land is still a significant asset and land titling enhances the security of tenure. He warned, however, against revisiting or using old land reform models to provide the right access to opportunities. Instead, he urged practitioners to consider developing better legal frameworks and means of resolving land or title disputes through alternative means. Mr. Deininger also invited participants to the upcoming World Bank conference for Latin American on land issues to be held in Pachuco, Mexico later in mid-May.

Dr. Strasma highlighted some success stories in regularizing land tenure and granting land titles, the potential for immediate success; and lessons from recent experience in Central America and the Caribbean. He mentioned the benefits accrued to 10,000 families in Guatemala who received financing from the USAID-World Bank Land Fund and to 4,000 individuals in San Juan de la Maguana, Dominican Republic whose parcels were measured and titled. He noted one exception to the success of land banks. The Land Bank in El Salvador failed because ex-combatants given lands refused to pay, creating a chain reaction among other recipients. In drawing conclusions about the region, he urged to minimize subsidies, which draw the wrong applicants and are unsustainable; to test the myths about the inability of the poor to make down payments; and to prioritize those who can be served, i.e. the “bankable” poor who have some savings, experience, and ability to cope with delays.

#### C. Summary of Post-Presentation Discussion

The discussion focused on redistribution and land taxation; popular coalitions; and legal frameworks. Taxation, which can offer all countries in the region with another source of revenue but which do not offer quick “fixes” and are difficult to implement. Improving access to assets may require a “community effort,” that is, multilateral and bilateral donor agencies coming together and coordinating efforts. Land laws, redistribution, and conflict resolution mechanisms will help us to assess the benefits and longevity of access over the long-term.

#### D. Characteristics and Conclusions of Session

One of the main conclusions of this session was to consider developing a conceptual framework that refines the definition of access to assets by incorporating practical notions to it. Mr. Weber is to incorporate also some of the points discussed during the session. “Taking small steps” would be prudent in developing rural infrastructure, technology, information management, and financial markets projects that complement existing and future investments in human and social capital.

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### **Session III: White Paper Panel, Topic 4: Vulnerability Management**

Moderator: Jeff Brokaw (USAID)

Speakers: Douglas Southgate (Ohio State U.), David Franklin (Sigma One) Michael Carter (U. of Wisconsin), Andrés Solórzano (IDB), Howard Batson (USAID/Jamaica)

#### A. Theme and Objective

Vulnerability Management, as discussed in the White paper on rural prosperity, relates to the ability of the rural poor in Latin America to withstand shocks, both environmental and economic, and what types of interventions are effective to reduce risk and vulnerability. Principal presenters discussed natural disasters and economic shocks, while the Mission presentation from USAID/Jamaica laid out measures taken to mitigate the impact these have on the island’s population.

#### B. Summary of Key Presentations

Dr. Douglas Southgate led off the presentation by dealing with the subject of Environmental Shocks and Latin America’s Rural Poor. He noted that Latin America is geographically prone to a number of natural

phenomena with economic consequences such as hurricanes, volcanoes, earthquakes and the El Niño cycle and that these impact disproportionately on the poor, in particular the rural poor. Response from this group to environmental shocks is to farm more land, most of which is highly prone to erosion. What can be done? Three possible options exist to reduce risk: 1) Insurance: As a rule, insurance is not an alternative to mitigation and the cost to acquire it may make it an ineffective option for the poor; 2) Prevention/Mitigation: “An ounce of prevention is worth a pound of cure.” This is the most cost effective option; and 3) Disaster Assistance: The need for this will never disappear. It was pointed out that waste and corruption in many Latin American countries in the wake of environmental shocks are a great concern. Corruption and inefficiency could be reduced through transparent contracting services formerly provided by the local government. The unfortunate conclusion was that as long as the rural poor are located on fragile environments, they will remain exposed to environmental shocks.

David Franklin moved the discussion to the Economic Vulnerability of the rural poor. He defined the concept by noting that economic vulnerability is the irreparable depletion of human capital and assets by unexpectedly bad outcomes in market transactions. The key to Dr. Franklin’s analysis is that poverty results from exclusion from markets by inadequate policies and institutions. Major recommendations made by Mr. Franklin included: 1) View rural households as firms as enterprises that operates in multiple markets; 2) Create cluster linkages to measure risks and perceive opportunities in domestic and global markets; 3) develop safety nets that enhance asset augmentation; and 4) promote diversification as way of reducing risk from monoculture cropping patterns.

Dr. Michael Carter spoke of economic vulnerability. He noted that economic vulnerability means that losses cause **IRREPARABLE** damage to the livelihood of the poor rural households, and that the bottom line is that you cannot expect poor people to get into a productive investment if they cannot expect to stay in. Now more than ever financial markets and fixed costs matter. Fixed costs have always been a large part of one of the most important investments poor households can make: The education of the next generation. Given this it is not surprising that we see low levels of education in the agrarian economies of the LAC region. He also pointed out that while we can be market friendly, we cannot be market naïve in the face of increasingly important fixed costs and rural financial markets. We need to crowd-in investments by the poor by making time and markets work for, not against them.

In a brief presentation Andrés Solórzano focused on IDB activities in diversification, information, investing in agricultural possibilities, assessment of ecological niches, and the opening of new markets. As an example he noted the promotion of specialty coffee (Guatemala). In this case the specialty market is growing ten times faster than standard coffee for consumption. He also emphasized that IDB must support production of products that are friendly to the environment.

The Mission presentation by Howard Batson focused on the way the USAID/Jamaica utilizes a variety of approaches to reduce environmental and economic risk to the country. He noted that Jamaica is vulnerable to both environmental shocks (island with many steep hillsides, sits in the hurricane zone of the Caribbean, impacted by both earthquakes and volcanoes) and economic shocks (has relied in past on monoculture agriculture, now heavily reliant on tourism; having difficulties adapting to free trade regimes). In response USAID has run a number of programs including watershed management, programs for sustainable tourism; improved agricultural practices; and environmental management systems.

### C. Summary of Post-Presentation Discussion

The brief discussion noted that vulnerability was a broad area. It was also pointed out that water use policies and the subsidization of water in many countries led to large distortions in usage patterns. It was suggested that vulnerability sessions in the future deal with water rights and pricing issues.

#### D. Characteristics and Conclusions of Session

Both economic and environmental vulnerability are topics where the possible interventions are many but the available resources few. On economic vulnerability there is a need to link approaches to economic governance, as the one more often than not impacts on the other. For environmental vulnerability it was important for USAID to focus on prevention as much as possible, while recognizing that disaster relief will always be a necessary component of US humanitarian assistance.

#### E. Related Material Available on Conference Website:

### **Session IV: White Paper Panel, Topic 5: Economic Governance**

Moderator: Susanna Mudge (Chemonics International)

Speakers: William Elliot (USAID), Donnie Harrington (USAID/Dominican Republic)

#### A. Themes and Objectives

To learn about USAID's experience with Competitiveness and how Competitiveness relates to rural prosperity.

#### B. Summary of Key Presentations

William Elliot focused his presentation on defining Competitiveness and highlighting some USAID initiatives in various countries. He referred to several books on the subject (e.g. Michael Porter's book). He noted that Competitiveness emphasizes the business community as the engine for economic growth and for a transition to a market economy. Improving the quality of the business environment and business strategies will improve productivity and lead to an increase in the standard of living. A major element for Competitiveness is the forming of "clusters" (i.e. related industries and businesses, usually in close geographic proximity leveraging resources and cooperating together to increase their competitive position). Strong clusters and businesses that are managed well can overcome bad policies.

Donnie Harrington highlighted the Competitiveness Project currently underway in the Dominican Republic. He provided background information about the DR and the focus of USAID programs. The DR is experiencing outstanding economic growth. However there continues to be closed/protected parts of the economy. In 1985, the agricultural sector was the primary focus of USAID assistance. Funding for agricultural activities began to decrease (it is not a competitive or open sector of the economy) and the Mission started to seriously focus on Competitiveness initiatives in 1998. Mr. Harrington defines Competitiveness as – "the degree to which a country structures its policy and institutional framework to produce goods and services at lower cost or higher quality than its competitors" and he highlighted the four components of Competitiveness Project in the DR: 1) Development of a National Competitive Strategy; 2) Development of a competitive strategy for the Santiago region; 3) Development of a competitive strategy for the fruits and vegetables cluster; and 4) Development of a competitive strategy for micro and small enterprises.

Competitiveness must be private sector led – linking markets and production. He highlighted the following lessons learned from the DR experience: 1) Competitiveness can be the means for making strategic choices at the country or regional level; 2) The poor need to participate in economic activities; 3) Work in the agricultural sector must be done within the strategic plan of the country; and 4) USAID must build alliances with others to make a difference in rural prosperity – it does not have the resources to do it on its own.

### C. Summary of Post-Presentation Discussion

The discussion revolved around two main points – i) clusters; and ii) the issue of leadership with competitiveness initiatives. Clusters: It was commented that “clusters” need to be better defined, at present the concept is too theoretical. Clusters should be formed first, rather they should be the outcome of market and production demands. Others view clusters as a means to an end – bringing people from a same sector with a same goal together. “You are not a “cluster” until you are successful.”

On the leadership issue, there was consensus that clusters and competitiveness need to be private sector driven – the process must be owned by business people. The public sector has to be won over to be on the same side as the private sector.

### D. Characteristics and Conclusions of Session

There was a fairly high interest level in the topic. However, there seem to be many differing views about the effectiveness of clusters. Whether clusters come first, last or somewhere in between was a topic of much discussion and debate.

**February 6, 2002**

#### **Session I: Featured Presentation: The Coffee Crisis**

Moderator: Carol Wilson (USAID)

Speakers: Bryan Lewin (World Bank), Ari Skromne (IDB), Willem Boot (Boot Coffee), Donald Holly (Green Mountain Coffee Roasters), Marsha Krigsvold (FHIA), Roberto Bendaña (producer), Brian Rudert (USAID/Guatemala), Felipe Manteiga (USAID), and Carol Wilson (USAID).

#### A. Themes and Objectives

The themes of the session focused on the current state of the coffee industry, from the perspective of producers, roasters, retailers, and development professionals from USAID, IDB and World Bank. The session reviewed the current situation of historically low price levels and discussed what, if any, assistance should be provided to the sector to support it. Options discussed included increasing quality level of primary product, diversification into non-coffee crops for marginal/low altitude producers, and appropriate donor response and interventions.

#### B. Summary of Key Presentations

Bryan Lewin, a member of the commodities and risk management group and a former economist for the International Coffee Organization, framed the coffee crisis in terms of historically low nominal and real price levels that are caused principally by an imbalance of supply and demand. His presentation focused on global overview of coffee prices and production, with brief discussion of future trends. Key points of Mr. Lewin’s discussion included: 1) much of the volatility that has historically caused price spikes has been removed from the production side. 2) Historically low prices, caused by basic supply/demand calculations, will not improve significantly in short term and perhaps not in long term either. His recommendations included focusing on increasing quality of Arabica production prevalent in Central America and attempting to increase consumption in production countries. He noted that Brazil, besides

being the largest producer, is the second largest consumer. Pure Coffee Programs requiring 100% pure coffee in domestic sales could be a way of increasing consumption.

Ari Skromne of the Environment and Natural Resources Management Division of the IDB noted that the economic and social impact on Central America is significant. Between 18%-20% of population in Latin America depends directly or indirectly on coffee industry and that the impact of low prices has been severe, with export revenue losses estimated at over \$700 million from 2000-2001; a loss of permanent employment of up to 54%, and losses of seasonal employment of 21%. Impact is disproportionate in rural areas where poor are more prevalent. Mr. Skromne recommended diversification for low quality producers, increased quality emphasis (instead of competing on price, compete on quality) and improved donor coordination to take advantage of different donor group's strengths.

Willem Boot operates a private consulting firm ([www.bootcoffee.com](http://www.bootcoffee.com)) serving the consulting and training needs of the coffee industry. His presentation focused on the rise and importance of the specialty coffee industry within the larger coffee context. From the roaster point of view he emphasized the following: 1) quality must increase – there is a market for quality coffee that is not being met; 2) coffee has the potential to become a differentiated industry such as wine, with high price premiums for unique quality products; and 3) cause related products such as organic, shade grown, Fair Trade, etc. offered significant growth potential and should be examined by the producing countries.

Donald Holly of Green Mountain Coffee Roasters ([www.greenmountaincoffee.com](http://www.greenmountaincoffee.com)) discussed the unique partnership programs that his company has entered into to not only secure high quality product but demonstrate socially-responsible business partnering opportunities. He made several specific suggestions such as an increase in direct farm purchases. GMCR currently purchases 5% of its coffee from specific farms, hopes to increase to 30% by 2002 and 40% by 2003. This could be a trend to be copied by other major purchasers. They have also entered into several long-term purchase agreements at or above fair trade prices, guaranteeing a return above production costs to their growers. Recommended future actions include better lab facilities in Central America for quality determination, more quality control throughout the entire production and marketing chain, and innovative marketing approaches such as greater use of internet, cupping competitions, and the development of appellations

Marsha Krigsvold of FHIA ([www.fhia.org.hn](http://www.fhia.org.hn)) presented preliminary findings from an ongoing assignment regarding diversification options for producers who are unprofitable and/or working in agro-climatic zones that produce low-quality coffee. Her initial results provided several recommendations not on specific products but in terms of approach to diversification efforts in different countries, including that diversification efforts must ensure that appropriate attention is given to all aspects of the value chain, from planting to processing to marketing. Also, sufficient time frame must be in place for diversification. A project that is only 2 or 3 years long is insufficient for the development of some of the most promising alternatives (fruit trees, cashew) – a minimum timeframe should be 5 to 7 years or longer. Diversification efforts must be country specific but with information available on a regional basis to prevent a rush by all producers into a specific product, creating oversupply and low prices.

Roberto Bendaña, a private producer from Nicaragua, gave a brief presentation from the grower perspective, indicating that the crisis in prices was having a negative impact across society in Nicaragua. He stressed that quality was a key issue for improving the marketing position of countries such as Nicaragua, where there will be a Cup of Excellence competition this year. He discussed possible role for USAID in the organization of producer groups and assistance in developing unique and creative strategies for debt pooling and reduction among growers.

Brian Rudert of USAID/Guatemala reviewed recent USAID activities in Guatemala designed to improve the competitive stance of Guatemalan coffee producers. His discussion focused on the linking of

ANACAFE and the Specialty Coffee Association of the Americas (SCAA) in an effort to improve quality and market prices for their product. Key parts of this effort, which is still ongoing, include focusing on quality improvements in areas above 1,100 m (key to success as below this elevation quality is marginal); value added and diversification for non-productive areas; expansion of non-traditional marketing techniques including internet auctions; emphasizing regional appellation to differentiate coffee varieties; and possible policy environment changes by requiring domestically (Guatemalan) produced and marketed coffee to be 100% pure coffee, thereby increasing domestic brew quality, decreasing impurities in cup, and general increase in consumption nationwide.

Felipe Manteiga spoke about the possible USAID reactions to coffee crisis. While his presentation was brief it was concise and highlighted several points, including: USAID cannot solve crisis, and certainly cannot make significant impact if acting alone – donor cooperation imperative; there are four corners of emphasis for coffee and agriculture that must be examined and emphasized: 1) science and technology (use regional institutions such as CATIE, CIAT); 2) Bridge knowledge divide inside USAID; 3) Market and trade information, must focus on trade and aid; 4) Emphasize natural resource management in all issues for sustainability; emphasis should be placed on Global Development Alliance as excellent mechanism for acting on problem of this sort; and finally that the problems with coffee are also related to problems of governance. AID must put countries on notice that structural changes are necessary if they wish to count on US support for overcoming this crisis.

Finally, Carol Wilson presented the key findings of her paper entitled Coffee Crisis Response. She emphasized need for more private enterprise involvement and participation in resolving the current crisis; focused on quality as being a key issue for countries to be able to win and maintain markets; the need for business development and marketing programs to increase the skill levels in coffee producing countries, and the necessity of diversification for low productivity and low altitude producers.

### C. Summary of Post-Presentation Discussion

The discussion that followed the presentation was lively and indicated that the level of interest in coffee alone would be sufficient to support a stand-alone activity. There were many questions regarding diversification alternatives for low-productivity areas. It was also noted that the state of research into coffee production issues was fragmented and inadequate. Genetic engineering was widely panned for coffee. One comment was, “If bugs won’t eat it why should we drink it?”

On the social impact side it was pointed out by more than one person that the low prices were already causing significant social disruption in several Central American countries. Internal displacements were sure to increase during 2002, and the warning was given that a strategy to respond to the crisis in incomes and employment had best be developed in critical countries to deal with this situation, either via PL 480 allotments or similar program. This brought out more discussion on worldwide resource demands for PL 480 aid and the relatively low priority put on Central America Vis a Vis Africa for these resources.

A final discussion focused on the market place. Noting that the cyclical nature of coffee prices was being greatly reduced by technological innovations and the entry of new producers, it was strongly suggested that AID not try to fix markets but instead focus on improving productivity and competitiveness. Work on rural infrastructure, social safety net programs, and improved business practices (economic governance) were all areas where AID could make a positive contribution to the overall health of the economy, thereby assisting the coffee sector without neglecting other rural activities.

### D. Characteristics and Conclusions of Session

The characteristics and conclusions of the session pointed to coffee as an issue that reflects all the major white paper themes discussed at the conference. From market access and information (beyond simple price data) to economic governance to vulnerability management and science and technology, all are related to coffee, and the simple magnitude of the sector in the Central American context make it an issue that cannot be ignored. Major conclusions reached were that there will always be a differentiated market for high quality coffee; that Central America, while it cannot compete on efficiencies of scale against Brazil and Viet Nam can compete in terms of quality; there needs to be concerted effort to diversify production, especially for marginal producers. It was also deemed vital the USAID be forward looking in dealing with mounting social pressures brought on by decreased coffee revenue and rising unemployment/food security issues, particularly in Central America.

## **Session II: New Directions, White Paper Comments & Wrap Up**

Moderator: Dr. Jolyne Sanjak (USAID)

Speakers: Clem Weber (Chemonics International)

### **A. Themes and Objectives**

The theme of the session was the white paper on rural prosperity, and the objective of the session was to present a synopsis of comments and questions related to the different sections of the white paper during the conference and to solicit additional open-forum feedback

### **B. Summary of Key Presentations**

Key points of Mr. Weber's presentation were: 1) there needs to be additional emphasis on transactional approach versus systematic approach; 2) needs more emphasis on partnerships and alliances; and 3) emphasis that this is a long term proposition, 10 years or more.

Specific sections were also commented upon during Mr. Weber's presentation. *Rules of Trade and Market Access*: Comments requested an emphasis on local and regional trade possibilities, not just exports to USA. *Access to Assets* input had requested that more attention to land tenure, possible distribution schemes, and that more emphasis be made on human capital and education. For *Vulnerability Management* there was some note on a Market Early Warning System (MEWS) concept that could be discussed, and for *Economic Governance* there had been suggestions of more emphasis on rule of law and business environment as well as the correct type of decentralization as critical to good governance. And finally *Science and Technology* had a number of comments, such as the necessity to build upon and access research already in public domain on agriculture.

In addition for *Science and Technology* there were several observations by Reed Hertford (submitted as stand alone commentary) which noted that efforts in this area should: 1) Focus on limited objectives, do not spread research too thinly; 2) Utilize occupational analysis to direct interventions; 3) Emphasize competitiveness criteria to rank interventions; 4) Concentrate on tropics – this is where the real research gap exists; 5) try to make rapid initial gains by utilizing already available information, not inventing new approaches (in reference to biotechnology); and 6) work through existing institutions and programs, for example FONTAGRO, which has already been endowed by USAID.

### **C. Summary of Post-Presentation Discussion**

The question and answer session was extensive and broad based. The main points covered are as follows:

- While long term focus is good, events move fast. There is a need for short term action plans.
- Need to focus scarce assets on specific relationships, such as growers/supermarkets
- Push for seamlessness of domestic and export markets in paper
- Helping poorest of poor is not efficient, needs to be emphasized in paper
- More focus needed on agriculture and price trends that are and will effect producers
- Would like to see more emphasis on basic agricultural research
- When planning interventions such as diversification don't try to pick winners, focus on markets instead. Diversification is particularly important for coffee producers at lower elevations
- There was some concern that the renewed focus on rural poverty would pass just as other ideas such as micro-enterprise have risen and fallen. What is to guarantee that USAID will keep its focus?
- Can the paper or USAID provide a sequencing of priorities for Missions to act upon?
- A more explicit discussion of US barriers to trade is needed, in particular to PD20 and Section 509, as they are hindering export growth from Latin America
- Conflict over natural resources must be addressed
- Analysis of legal and social systems needs to be included in any poverty reduction strategy
- Appreciated economic governance section as background but it is not an action area per se
- On market access for coffee, it was noted that there has not been a concentration of producers even though roasters, exporters and marketers are heavily concentrated. This need to be taken into account in designing market access strategies for coffee
- In an era of scarce resources, there is a need to emphasize interventions that increase local revenues such as land taxes, which also leads to increased democratization
- A separate section on civil society/governance would have been helpful
- Strategic choices must be made on basic research, will need to prioritize
- The white paper should have more emphasis on tourism

#### D. Characteristics and Conclusions of Session

There was a lively discussion on what the white paper meant, how it should be used, and next steps for the process. Final points emphasized that the market for the paper needed to be the Missions and that they will need to prioritize responses given their resource and staff limitations.

#### **Lunch Presentation: The Strategic Importance of Latin America to the USA**

Speakers: Michael Maxey (USAID/Peru)

##### A. Themes and Objectives

Mr. Maxey gave a brief presentation on the strategic importance of Latin America to the USA. He noted that many issues such as narcotics and illegal immigration are shared issues by the US and Central and South American countries. He noted the dramatic increase in INS funding as opposed to USAID funding, with the understanding that having those funds working to improve conditions in developing countries could well be more efficient than putting them on the border. Mr. Maxey's presentation was followed by a brief video on the US Government's anti-narcotics alternative development program in Peru.